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AND THE BROADCASTING BOARD OF GOVERNORS
OFFICE OF INSPECTOR GENERAL

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November 2014

Audit of the Contract Closeout Process for Contracts Supporting the U.S. Mission in Afghanistan

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PREFACE

This report is being transmitted pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared as part of the Office of Inspector General's (OIG) responsibility to promote effective management, accountability, and positive change in the Department of State (Department) and the Broadcasting Board of Governors.

This report addresses whether the Department effectively and efficiently closed out contracts supporting the U.S. Mission in Afghanistan. The report is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

OIG contracted with the independent public accountant Kearney & Company, P.C., to perform this audit. The contract required that Kearney and Company perform its audit in accordance with guidance contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Kearney & Company's report is included.

Kearney determined that the Department had not consistently met Federal and Department contract management and closeout requirements for the 87 Afghanistan-related task orders in the review.

OIG evaluated the nature, extent, and timing of Kearney & Company's work; monitored progress throughout the audit; reviewed Kearney & Company's supporting documentation; evaluated key judgments; and performed other procedures as appropriate. OIG concurs with Kearney & Company's findings, and the recommendations contained in the report were developed on the basis of the best knowledge available and were discussed in draft form with those individuals responsible for implementation. OIG's analysis of management's response to the recommendations has been incorporated into the report. OIG trusts that this report will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of the individuals who contributed to the preparation of this report.

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Audit of the Contract Closeout Process for Contracts Supporting the U.S. Mission in Afghanistan

Office of Inspector General
U.S. Department of State
Washington, D.C.

Kearney & Company, P.C. (Kearney) has performed an audit of the contract closeout process for contracts supporting the U.S. Mission in Afghanistan. This performance audit, performed under Contract No. SAQMMA09D0002, was designed to meet the objective identified in the report section titled "Objective" and further defined in Appendix A, "Scope and Methodology," except where specific limitations were noted.

We conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. We communicated the results of our performance audit and the related findings and recommendations to the U.S. Department of State Office of Inspector General.

We appreciate the cooperation provided by personnel in Department offices during the audit.



Kearney & Company, P.C.
Alexandria, Virginia
September 19, 2014

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Acronyms

A/LM/AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management
A/OPE	Bureau of Administration, Office of the Procurement Executive
CCT	Contract Closeout Team
CO	contracting officer
COR	contracting officer's representative
DOSAR	Department of State Acquisition Regulation
FAH	Foreign Affairs Handbook
FAR	Federal Acquisition Regulation
FPDS-NG	Federal Procurement Data System–Next Generation
OIG	Office of Inspector General
OMB	Office of Management and Budget
RPSO	Regional Procurement Support Office
ULO	unliquidated obligation

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Executive Summary

Since January 2002, the Department of State (the Department) has contracted for goods and services to support the U.S. Mission in Afghanistan. According to USASpending.gov, the Department's contracting activity for Afghanistan increased from 17 contract actions, totaling approximately \$126 million in FY 2002, to 1,464 contract actions, totaling approximately \$930 million in FY 2013. Contract closeout, which is the final phase in a contract's life cycle, is a key step in ensuring that the Department has received the appropriate goods and services at the agreed-upon price.

The audit objective was to determine whether the Department had effectively and efficiently closed out contracts supporting the U.S. Mission in Afghanistan. An external audit firm, Kearney & Company, P.C. (Kearney), acting on behalf of the Office of Inspector General (OIG), performed this audit. Specifically, Kearney determined whether the Department had complied with Federal and Department contract closeout requirements and whether the Department had reviewed and identified funds remaining on physically completed contracts that could be deobligated. See Appendix A for the Scope and Methodology.

The Department did not consistently meet Federal and Department contract management and closeout requirements for the 87 Afghanistan-related task orders included in Kearney's review. Specifically,

- the Department could not identify contracts and task orders nearing physical completion because no Department procurement application tracked such information;
- contract files for 36 of the 87¹ (41 percent) task orders selected for review were either still active, physically completed prior to October 1, 2008, or physically completed after September 30, 2012.² As a result, 51 task orders were subject to detailed review for compliance with contract closeout requirements;
- contract files for 29³ of the 87 (33 percent) task orders were lost, prematurely destroyed, or did not include the support needed to determine physical completion;
- none of the 22⁴ physically completed task orders met both the documentation and timeframe requirements for closing contracts;

¹ Of the 87 task orders, 57 were initiated by the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM) and 30 were initiated by Embassy Kabul.

² The audit scope was limited to contracts performed in Afghanistan that were physically completed between October 1, 2008, and September 30, 2012. Kearney determined that the Department's contract writing and reporting systems did not track contract physical completion, thereby imposing certain information limitations on the target population. See Appendix A for a more detailed discussion of the scope and methodology used for this audit.

³ Of the 29 task orders, 5 were initiated by A/LM/AQM and 24 were initiated by Embassy Kabul.

⁴ Of the 22 task orders, 16 were initiated by A/LM/AQM and 6 were initiated by Embassy Kabul.

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- evidence for initial funds review was missing for 21⁵ of the 22 (95 percent) physically completed task orders;
- contract closeout timelines were not met for 7⁶ of the 22 (32 percent) physically completed task orders; and
- contract files for all 8⁷ of the closed task orders were missing required closeout documentation.

The failure to close the task orders properly occurred, in part, because the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM) did not have an adequate process in place to transition contract files from one contracting officer (CO) to another during a contract's life cycle. In addition, the Department did not have systems in place for tracking the contract and task order periods of performance that allow COs to identify and monitor contracts and task orders nearing physical completion, or to monitor the location of contract files. Further, the Department had not established comprehensive procedural guidance for contract closeout or ensured existing guidance was accurate. As a result, \$68 million in contract files could not be located or were prematurely destroyed, \$6.3 million in funding had not been deobligated and had expired, and up to \$52 million in funding was available for deobligation.⁸

Kearney identified similar problems in a December 2013 audit of contracts supporting the U.S. Mission in Iraq. That audit made a total of nine recommendations, eight of which were applicable to the Audit of the Contract Closeout Process for Contracts Supporting the U.S. Mission in Afghanistan. The Department's actions were to be applied to all new contracts and task orders. The Afghanistan task orders sampled in this review were from a similar period as our earlier Iraq review and thus would not reflect the changes the Department has or will be making. As a result, we are not making new recommendations to address the issues. See Appendix B for the status of each of the eight Iraq recommendations applicable to the Afghanistan Audit.

This report makes three new recommendations to the Department, which includes the recommendation for the Bureau of Administration, Office of the Procurement Executive (A/OPE), in consultation with A/LM/AQM, to develop and implement a requirement for COs to maintain a "Contract Chronology" for each contract file. The "Contract Chronology" should include assignment of and changes in key contract personnel and key milestones through the life of the contract. OIG also recommends that A/OPE, in consultation with A/LM/AQM, require that departing COs certify the completeness and accuracy of their contract files prior to their departure. Further, OIG recommends that A/LM/AQM review task orders SAQMPD06FA079 and SAQMMA10F1570 and determine how much of the \$52 million in unliquidated obligations can be deobligated.

⁵ Of the 21 task orders, 15 were initiated by A/LM/AQM and 6 were initiated by Embassy Kabul.

⁶ All seven task orders were initiated by A/LM/AQM.

⁷ Of the eight task orders, two were initiated by A/LM/AQM and six were initiated by Embassy Kabul.

⁸ The \$52 million in funding was obligated to the following task orders: SAQMPD06FA079 and SAQMMA10F1570.

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Based on responses provided by A/OPE (see Appendix E) on October 6, 2014, and by A/LM/AQM (see Appendix F) on October 3, 2014, OIG considers Recommendations 1-2 resolved, pending further action, and Recommendation 3 unresolved. Management's responses and OIG's replies to those responses are included after each recommendation.

Background

Since January 2002, the Department has contracted for goods and services to support the U.S. Mission in Afghanistan. According to USASpending.gov, the Department's contracting activity for Afghanistan increased from 17 contract actions, totaling approximately \$126 million in FY 2002, to 1,464 contract actions, totaling approximately \$930 million in FY 2013. Contract closeout, which is the final phase in a contract's life cycle, is a key step in ensuring that the Department has received the appropriate goods and services at the agreed-upon price. Contract closeout is triggered by the physical completion of a contract. According to Federal Acquisition Regulation (FAR) 4.804-4,⁹ a contract is considered physically complete when the U.S. Government has issued a contract termination notice to the contractor or when the following three actions have occurred:

- The contractor has completed the required deliveries, and the Government has inspected and accepted the goods and materials.
- The contractor has completed all services, and the Government has accepted those services.
- All option provisions¹⁰ have expired.

Once the contract is physically complete, the CO is required to conduct an initial funds review and determine whether the contract has excess funds that should be deobligated. The CO then initiates administrative action in accordance with Federal and Department contract closeout guidance.

Contract Closeout Guidance

Contract closeout guidance is contained in the FAR;¹¹ the Department of State Acquisition Regulation (DOSAR);¹² the *Foreign Affairs Handbook* (FAH);¹³ and the Department's Overseas Contracting and Simplified Acquisition Guidebook (Overseas Guidebook).¹⁴ FAR 4.804-5 contains a list of 15 administrative actions that must be completed and documented during the closeout process if applicable (see Appendix C). Once the CO confirms that the applicable administrative actions have been completed, a contract completion statement is prepared and the contract is designated as closed.

⁹ FAR Subpart 4.804-4, "Physically Completed Contracts."

¹⁰ "Options provisions" allow the Government to extend contract terms, to include additional quantities or work effort, without further negotiation or further agreement with the contractor.

¹¹ FAR Subpart 4.804, "Closeout of Contract Files."

¹² DOSAR 604.804, "Closeout of Contract Files."

¹³ 14 FAH-2-H-570, "Final Evaluation and Closeout."

¹⁴ Overseas Guidebook Chapter 8, "Contract Modification/Contract Closeout."

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FAR 4.804-1¹⁵ requires the contract administration office close fixed-price contracts within 6 months of the date of physical completion and cost reimbursable contracts within 36 months of the date of physical completion. For base contracts that have multiple task orders, the CO does not need to wait for completion of the base contract before closing task orders; rather, the task orders can be closed individually as they are physically completed. Closing task orders individually can result in the timely identification of unexpended funds that could potentially be used for other purposes.

The FAH and Overseas Guidebook¹⁶ contain additional Department guidance for closing contracts. The FAH¹⁷ provides limited guidance on contract closeout roles and responsibilities and dollar thresholds for reporting contractor performance. In addition, the Overseas Guidebook¹⁸ includes specific guidance and examples of documents needed to properly close out a contract or task order.

Roles and Responsibilities

The contracting office that awarded the contract is responsible for its closeout. A/LM/AQM is responsible for closing out approximately 97 percent of the total dollar value of the contracts awarded to support the U.S. Mission in Afghanistan. A/LM/AQM has two Contract Closeout Teams (CCTs) that are responsible for facilitating contract closeout procedures with administering bureaus, COs, and their representatives. The CCTs interface directly with COs to complete the necessary contract closeout forms and administrative information. Once a contract is physically complete, the CO is responsible for notifying the CCT of the contract status and required closeout actions. The embassy and other Department bureaus are responsible for awarding and closing out the remaining 3 percent of contracts administered in support of the U.S. Mission in Afghanistan.

Audit of the Iraq Contract Closeout Process

In December 2013, OIG and Kearney reported that the closeout process for Iraq-based contracts was not effective.¹⁹ Specifically, Kearney found that the CCTs and COs had not consistently met Federal and Department contract closeout requirements. In addition, Kearney found that the Department lacked a unified contract management system capable of tracking contract and task order periods of performance and dates of physical completion, COs did not have a sufficient process in place to monitor the location of contract files, and the Department had not established comprehensive procedural guidance for contract closeout or ensured existing guidance was accurate. In that report, OIG and Kearney made nine recommendations for the Department to improve these deficiencies. See Appendix B for additional information regarding the status of each recommendation issued as part of the Iraq report.

¹⁵ FAR 4.804-1, "Closeout by the Office Administering the Contract."

¹⁶ The Department developed the Overseas Guidebook to aid overseas posts in performing contracting actions because of the decentralized nature of contracting activities overseas.

¹⁷ 14 FAH-2-H-570, "Final Evaluation and Closeout."

¹⁸ Overseas Guidebook Chapter 8, "Contract Modification/Contract Closeout."

¹⁹ *Audit of the Contract Closeout Process for Contracts Supporting the U.S. Mission in Iraq*, AUD-MERO-14-06, December 2013.

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Objective

The audit objective was to determine whether the Department had effectively and efficiently closed out contracts supporting the U.S. Mission in Afghanistan. Specifically, Kearney determined whether the Department had complied with Federal and Department contract closeout requirements and whether the Department had reviewed and identified funds remaining on physically completed contracts that could be deobligated.

Audit Results

Finding: The Department Did Not Meet Federal and Department Contract Closeout Requirements in Afghanistan

The Department did not consistently meet Federal and Department contract management and closeout requirements for the 87 Afghanistan-related task orders included in Kearney's review. Specifically,

- the Department could not identify contracts and task orders nearing physical completion because no Department procurement application tracked such information;
- contract files for 36 of the 87 (41 percent) task orders selected for review were either still active, physically completed prior to October 1, 2008, or physically completed after September 30, 2012. As a result, 51 task orders were subject to detailed review for compliance with contract closeout requirements;
- contract files for 29 of the 87 (33 percent) task orders were lost, prematurely destroyed, or did not include the support needed to determine physical completion;
- none of the 22 physically completed task orders met both the documentation and timeframe requirements for closing contracts;
- evidence for initial funds review was missing for 21 of the 22 (95 percent) physically completed task orders;
- contract closeout timelines were not met for 7 of the 22 (32 percent) physically completed task orders; and
- contract files for all 8 of the closed task orders were missing required closeout documentation.

The failure to close the task orders properly occurred, in part, because A/LM/AQM did not have an adequate process in place to transition contract files from one CO to another during a contract's life cycle. In addition, the Department did not have systems in place for tracking the contract and task order periods of performance that allow COs to identify and monitor contracts and task orders nearing physical completion, or to monitor the location of contract files. Further, the Department had not established comprehensive procedural guidance for contract closeout or ensured existing guidance was accurate. As a result, \$68 million in contract files could not be

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located or were prematurely destroyed, \$6.3 million in funding had not been deobligated and had expired, and up to \$52 million in funding was available for deobligation.²⁰

Task Orders Reviewed

Kearney requested a listing of physically completed domestic and overseas contracts performed in Afghanistan; however, the Department was unable to provide the list because no Department procurement application tracked such information. Therefore, to establish the universe of contracts subject to testing, Kearney requested that A/LM/AQM provide a listing of all contracts supporting Afghanistan operations and programs that were awarded from FY 2004 through FY 2012. Kearney selected 87 task orders, valued at approximately \$8.4 billion, from a universe of 439 Afghanistan-related task orders, valued at approximately \$8.7 billion, awarded between FY 2004 and FY 2012.

Kearney found that 36 of the 87 (41 percent) task orders selected for review were either still active, physically completed prior to October 1, 2008, or physically completed after September 30, 2012²¹ (see table 1). Kearney also found the files for 29²² of the 87 (33 percent) task orders were lost, prematurely destroyed, or contained insufficient information to determine when the task orders were physically completed. Kearney also determined that 22 of the 87 (25 percent) task orders selected for review were physically completed within the scope of this audit.

Table 1. Status of Sampled Task Orders by Contracting Office

Task Order Status	Overall Totals	A/LM/AQM	U.S. Embassy Kabul	Total Value of Task Orders (millions)
Task Orders Selected For Review	87	57	30	\$8,436
Task Orders Not Within the Scope of Audit	36	36	0	\$5,922
Task Order Files Could Not Be Located or Were Prematurely Destroyed	27	3	24	\$68
Date of Physical Completion Could Not Be Determined	2	2	0	\$26
Task Orders Physically Completed Within the Scope of Audit	22	16	6	\$2,420

Source: Prepared by Kearney based on information provided by the Department.

²⁰ The \$52 million in funding was obligated to the following task orders: SAQMPD06FA079 and SAQMMA10F1570.

²¹ Kearney could not positively identify all physically completed contracts in Afghanistan between October 1, 2008, and September 30, 2012, because the Department was unable to provide the target population (Appendix A).

²² 27 task order files could not be located or were prematurely destroyed and 2 task order files had incomplete documentation to determine date of physical completion.

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Of the 22 physically completed task orders within the audit scope, none of them met both the documentation and timeframe requirements for closing contracts. Specifically, 21 were missing evidence of an initial funds review and 7 had not been closed within required timeframes (see table 2). Although the Department closed 8 of the 22 physically completed task orders, all 8 closed task orders were missing required closeout documentation.

Table 2. Closeout Status of Physically Completed Task Orders by Contracting Office

Task Order Status	Overall Totals	A/LM/AQM	U.S. Embassy Kabul	Total Value of Task Orders (millions)
Task Orders Physically Completed Within the Scope of Audit*	22	16	6	\$2,420
Initial Funds Reviews Were Missing	21	15	6	\$2,269
Closeout Timelines Were Not Met	7	7	0	\$1,403
Contract Files Were Missing Closeout Documentation	8	2	6	\$180

*Each physically completed task order could have multiple discrepancies.

Source: Prepared by Kearney based on information provided by the Department

Contract Files Could Not Be Located, Were Prematurely Destroyed, or Lacked Sufficient Information on Physical Completion

The Department could not locate or prematurely destroyed 27 of the 87 (31 percent) contract files, valued at \$68 million. Of the 27 contract files not provided, A/LM/AQM could not locate²³ the executed task orders for 3 of its contract files and Embassy Kabul could not locate the executed task order for 1 of its contract files. Further, personnel at Embassy Kabul destroyed the files for 23 additional contracts prior to the FAR²⁴ mandated retention date. Although Embassy Kabul officials were able to provide the original procurement action and an un-signed receiving report through its retired contracting system, WebPass, for each of the destroyed hard-copy files, without a complete history of each contract action, Kearney could not complete test procedures for these task orders. According to Embassy Kabul officials, the warehouse personnel who destroyed the files misunderstood the time requirement for retaining contract files. Kearney attempted to assess the extent of any additional destroyed contract files outside of the sample; however, Embassy Kabul could not provide a detailed listing of contract files it had destroyed prior to the retention requirements set forth in the FAR.

In addition, the contract files for two A/LM/AQM task orders, valued at \$26 million, did not contain sufficient information to determine when the task orders were physically completed. Specifically, the files were missing key information, such as evidence of receipt and acceptance

²³ A/LM/AQM was unable to provide the task orders during the allotted timeframe. Specifically, Kearney issued the sample request on March 19, 2014, and accepted documentation through June 23, 2014 (13 weeks in total).

²⁴ According to FAR Subpart 4.805, "Storage, Handling, and Disposal of Contract Files," the retention period for contracts ranges from 3 years after the final payment to 6 years and 3 months after the final payment. The retention period is dependent on the task order type, dollar value, and purpose.

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for goods ordered and the basic task order provisions, necessary to determine the proper period of performance. As a result, the missing information prevented Kearney from completing audit procedures on those two task orders.

Initial Funds Reviews Were Missing

The FAR and DOSAR require that the contracting office conduct a funds review upon initiating the contract closeout process to determine whether excess funds are available for deobligation. However, Kearney found no evidence of an initial funds review for 21 of the 22 (95 percent) physically completed task orders. For the 15 domestically managed task orders, A/LM/AQM officials stated that they lacked specific procedures on how to conduct a funds review. The officials also stated that limited access to data maintained in the Department's retired Central Financial Management System had made conducting a funds review a cumbersome process.

For the task orders managed by Embassy Kabul, contracting officials stated they performed unliquidated obligation (ULO)²⁵ reviews on a quarterly basis. While the ULO review is a valuable control, it does not serve the same purpose as an initial funds review, which should have been completed when the contract closeout process was initiated.

Closeout Timelines Were Not Met

FAR 4.804-1²⁶ requires the contract administration office close fixed-price contracts within 6 months of the date of physical completion and cost reimbursable contracts within 36 months of the date of physical completion. Of the 22 physically completed task orders, 2 were closed within the timelines prescribed by the FAR, 7 were not closed within the allowed timelines, 7 were open and had not yet surpassed timelines, and 6 were missing documentation necessary to determine date of contract closeout.²⁷ Contracting officials stated they had difficulties closing contracts in a timely manner due to improper documentation contained in contract files provided by their predecessors. Further, contracting officials stated that a backlog of contracts awaiting closeout accumulated prior to the formation of the A/LM/AQM Business Operations Division's CCT in FY 2009. Prior to the formation of the CCT, the Department did not have a team solely dedicated to closing its contracts since FY 2000.

Contract Files Were Missing Closeout Documentation

Of the eight task orders considered closed by the Department, none of the corresponding contract files contained all of the documentation required by the FAR and DOSAR to support

²⁵ An ULO is an obligation that has been properly recorded, but the obligated funding has not been spent. Instead, the obligated balance remains on the Department's books, and can potentially expire if left there long enough. The ULO review is completed on obligations that have not had any activity on them over an extended period of time.

²⁶ FAR 4.804-1, "Closeout by the Office Administering the Contract."

²⁷ Of the 22 physically completed task orders, only 16 could be tested for timeliness. The contract files for the other six task orders did not contain sufficient documentation to determine date of contract closeout.

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closeout.²⁸ Specifically, Kearney identified the following discrepancies in the task orders:²⁹

- Six did not contain a completed Contracting Officer's Representative (COR) Completion Certificate certifying that all goods and services had been received.
- Five did not contain a completed Final Payment and Closeout Memorandum.
- Five did not contain a completed Contractor Release of Claims.
- Six did not contain a completed Contract Performance Assessment and Reporting System evaluation form or an equivalent assessment of contractor performance.
- Eight did not contain a completed Contract Closeout Checklist.

Kearney was unable to meet with all individuals responsible for the closure of the aforementioned contracts due to the historical nature of the contracts and turnover of key personnel responsible for closing the contracts. According to current contracting officials, the Department lacked detailed guidance on how to perform closeouts.

Office of Acquisitions Management Lacked a Contracting Officer Transition Plan

A/LM/AQM did not have an adequate process in place to transition contracts from one CO to another during a contract's life cycle. Kearney found that 10 of the 16³⁰ physically completed task orders within the audit scope had at least one CO rotation during the contract life cycle. A/LM/AQM Memorandum 08-01 *Documenting Transfer of Contracting Officer Cognizance*³¹ required COs to document basic administrative information regarding contract transfers; however, A/LM/AQM did not provide formalized guidance as to how departing COs should perform the knowledge transfer to receiving COs or over what timeframe. In addition, the Memorandum did not require departing COs to certify the completeness and accuracy of their contract files prior to their departure.³² Further, three different COs communicated they had difficulties in closing contracts due to improper documentation contained in contract files provided by their predecessors. One of the three COs stated:

By the time that a contingency area contract / task order (TO) reaches the closeout stage, the documentation is typically incomplete or fragmented. In many cases, Multiple Contracting Officers (COs) and Contracting Officer's Representatives (CORs) administer the Contract / TO, during its operational life. In some cases, a CO or COR will provide direction, through correspondence, which is not incorporated into the contract / TO through a modification. Even if a CO does incorporate changes through modifications, it

²⁸ Reference Appendix C for administrative closeout requirements detailed in the FAR and DOSAR.

²⁹ Note: Each task order could have multiple discrepancies.

³⁰ Kearney met with 7 COs who oversaw the 16 A/LM/AQM initiated task orders. Kearney did not meet with the individuals responsible for the Embassy Kabul initiated task orders due to the historical nature of the task orders and turnover of key personnel responsible for the task orders.

³¹ In January 2008, A/LM/AQM issued Memorandum 08-01 *Documenting Transfer of Contracting Officer Cognizance* that required COs to "specify the date of the transfer of cognizance, designate the receiving contracting officer and identify what transactions are the subject of the transfer."

³² Neither the FAR nor DOSAR nor other Department contract management guidance includes a requirement for the departing CO to certify the completeness and accuracy of their contract files prior to their departure.

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is often difficult to obtain a final status of work requirements without extensive analysis (adding all addendums to the Statement of Work / Objectives and correspondence with the force and effect of modifications into a master document).

On May 7, 2014, A/OPE issued Procurement Information Bulletin (PIB) No. 2014-10 *Contract Files*, requiring that both COs and CORs maintain proper records within their contract files, and reiterating that records management is a basic responsibility when exercising contracting authority. Similar to A/LM/AQM Memorandum 08-01, PIB No. 2014-10 did not require transferring COs to certify the completeness and accuracy of their contract files prior to their departure. Further, PIB No. 2014-10 stated A/LM and A/OPE are developing electronic filing options that would provide a central records repository.

Although a central records repository would improve contract file management, the Department did not have adequate procedures in place to ease the knowledge transfer during contract file handoffs from one CO to another throughout a contract's life. Contract files may include hundreds, even thousands of pages of required documentation; however, the Department did not have a requirement for COs to summarize key information of significant events documented within the contract file.

Risk of Financial Mismanagement and Expiration of Funds Was Increased

Noncompliance with Federal and Department contract closeout guidance increased the Department's risk of financial mismanagement and the expiration of funds for Afghanistan-related task orders. The purpose of the contract closeout process is to ensure that all goods and services from the contract have been received, all payments to contractors have been made, and that payments were appropriate. When contract closeout requirements are not followed, the risk of late payments (that is, payments made after the invoice due date) to contractors increases, as does the risk that improper payments and fraudulent activities may not be detected or remediated. The Contract Closeout Checklist is found at Appendix D. In addition, closing a contract after the mandated closeout timeframes described in the FAR³³ can be more time consuming because key documentation, such as invoices and receiving reports, and contracting personnel with first-hand knowledge of the contract may no longer be available.

Closing a contract in a timely manner can potentially allow the Department to reallocate unused funds previously obligated to the contract. Kearney found that approximately \$6.3 million from three of the task orders reviewed could have been reallocated for other purposes if the Department had completed an initial funds review in a timely manner. Instead, those funds expired and can no longer be reallocated.

In addition, Kearney identified two Afghanistan related task orders with up to \$52 million in no-year money³⁴ available for deobligation that the Department could put to better use. The two task orders had been physically completed since March 2012; however, the contract files did

³³ FAR Subpart 4.804-1, "Closeout by the Office Administering the Contract."

³⁴ No-year money is funding that does not have an ending budget fiscal year. Rather, the funds can be drawn upon until they are fully expended. Moreover, the funds may be deobligated and reallocated to fund other task orders.

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not contain evidence that the Department had reconciled the goods and services it received against payments made and available funding. Moreover, as of April 2014, the Department had not coordinated with the vendor to identify excess funds that could be deobligated from the task orders and reallocated for other uses. The Department initiated followup with the vendor after receiving Kearney's information request; however, reconciling goods and services received against payments made to determine funding available for deobligation may be a challenge because these contracts had been physically completed for more than 2 years. Therefore, key documentation and contracting personnel with firsthand knowledge of the contract may no longer be available.

As previously noted, OIG and Kearney reported in December 2013 that the closeout process for Iraq-based contracts was not effective. In the Iraq report, OIG and Kearney made nine recommendations, eight of which were applicable to the Audit of the Contract Closeout Process for Contracts Supporting the U.S. Mission in Afghanistan. The Afghanistan task orders sampled in this review were from a similar period as our earlier Iraq review and thus would not reflect the changes the Department has or will be making. OIG and Kearney did not re-issue the recommendations³⁵ made in the Iraq report; however, OIG and Kearney did issue three new recommendations specific to the Afghanistan audit, as described below.

Recommendation 1. OIG recommends that the Bureau of Administration, Office of the Procurement Executive, in consultation with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop and implement a requirement for contracting officers to maintain a "Contract Chronology" for each contract file. The "Contract Chronology" should include assignment of and changes in key contract personnel and key milestones through the life of the contract.

Management Response: In its October 6, 2014, response, A/OPE concurred with the recommendation, stating that it would incorporate the requirement in a Procurement Information Bulletin.

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation showing that A/OPE developed and implemented a requirement for contracting officers to maintain a "Contract Chronology" for each contract file.

Recommendation 2. OIG recommends that the Bureau of Administration, Office of the Procurement Executive, in consultation with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, require that departing contracting officers certify the completeness and accuracy of their contract files prior to their departure.

³⁵ See Appendix B for the status of each recommendation issued as part of the Iraq report.

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Management Response: In its October 6, 2014, response, A/OPE concurred with the recommendation, stating that it would incorporate the requirement in a Procurement Information Bulletin.

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation showing that A/OPE required that departing contracting officers certify the completeness and accuracy of their contract files prior to their departure.

Recommendation 3. OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, review task orders SAQMPD06FA079 and SAQMMA10F1570 and determine how much of the \$52 million in unliquidated obligations can be deobligated.

Management Response: In its October 3, 2014, response, A/LM/AQM concurred with the recommendation, stating that the “Contracting Officer sent out written notification to the vendor on May 27, 2014, to reconcile invoicing and deobligate unnecessary funds.” A/LM/AQM also noted that \$308,000 under SAQMPD06FA079 was deobligated and that the contracting officer will continue to work with the vendor to evaluate the remaining amounts of unliquidated obligations and deobligate any unnecessary funds. A/LM/AQM further advised that final closeout of these task orders is pending resolution of an ongoing Defense Contract Audit Agency audit of the Worldwide Personal Protective Services II contract.

OIG Reply: OIG considers the recommendation unresolved. While A/LM/AQM stated that it agreed with OIG’s recommendation, the response was not satisfactory to resolve the recommendation because management did not provide a decision with respect to the validity of the \$52 million in unliquidated obligations. This recommendation can be resolved when OIG receives and accepts A/LM/AQM’s determination (dollar value agreed to or not agreed to) on the validity of the \$52 million in unliquidated obligations. This recommendation can be closed when OIG receives and accepts documentation showing the actions A/LM/AQM has taken to deobligate the obligations determined to be invalid.

List of Recommendations

Recommendation 1. OIG recommends that the Bureau of Administration, Office of the Procurement Executive, in consultation with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop and implement a requirement for contracting officers to maintain a “Contract Chronology” for each contract file. The “Contract Chronology” should include assignment of and changes in key contract personnel and key milestones through the life of the contract.

Recommendation 2. OIG recommends that the Bureau of Administration, Office of the Procurement Executive, in consultation with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, require that departing contracting officers certify the completeness and accuracy of their contract files prior to their departure.

Recommendation 3. OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, review task orders SAQMPD06FA079 and SAQMMA10F1570 and determine how much of the \$52 million in unliquidated obligations can be deobligated.

Scope and Methodology

The Office of Inspector General (OIG) initiated this audit to determine whether the Department of State (Department) had effectively and efficiently closed out contracts supporting the U.S. Mission in Afghanistan. Specifically, Kearney determined whether the Department had complied with Federal and Department contract closeout requirements and whether the Department had reviewed and identified funds remaining on physically completed contracts that could be deobligated. An external audit firm, Kearney & Company, P.C. (Kearney), under contract with OIG, conducted this audit. Kearney conducted this audit in accordance with generally accepted government auditing standards. Those standards require that Kearney plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objective. OIG believes the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective.

Kearney conducted fieldwork for this performance audit from December 2013 through June 2014 at the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM); the Bureau of Administration, Office of the Procurement Executive (A/OPE); and U.S. Embassy Kabul, Afghanistan. To obtain background information for this audit, Kearney reviewed the Federal Acquisition Regulation (FAR), the Department of State Acquisition Regulation (DOSAR), and the Government Accountability Office's Principles of Federal Appropriations Law. Kearney met with officials from A/LM/AQM and Embassy Kabul to obtain an understanding of their contract closeout and funds review processes. The audit scope was limited to contracts performed in Afghanistan that were physically completed between October 1, 2008, and September 30, 2012.

Kearney determined that the Department's contract writing and reporting systems do not track contract physical completion, thereby imposing certain information limitations on the target population. Kearney could not positively identify all physically completed contracts in Afghanistan between October 1, 2008, and September 30, 2012, because the Department was unable to provide the target population.

Kearney performed testing over domestic and overseas contracts¹ to determine if the Department had complied with Federal and Department contract closeout and funds review requirements. Kearney identified significant risks and key internal controls² within the contract closeout and funds review processes. To assess control design, Kearney reviewed the processes used for each type of internal control. For all controls found to be designed effectively, Kearney developed procedures to test the operation of these controls. Controls that were found to be

¹ The terms "domestic contract" and "overseas contract" are determined based on the geographic location of the awarding bureau and/or post. In both instances, the contract supports the U.S. Mission in Afghanistan.

² Internal control, as defined in accounting, is a process for assuring achievement of an organization's objectives in operation effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations, and policies.

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ineffectively designed, such as the initial funds review, were further assessed for short- and long-term risks, as applicable.

Sampling Methodology

The audit objective was to determine whether the Department had complied with Federal and Department contract closeout requirements for the U.S. Mission in Afghanistan, which included reviewing and identifying funds remaining on physically completed contracts that could be deobligated. To obtain sufficient evidence to conclude whether the Department performed contract closeout procedures and complied with Federal and Departmental provisions, Kearney implemented a judgment sample for both domestic- and overseas-awarded task orders with a total sample size of 87 items associated with approximately \$8.4 billion in value. Kearney selected a judgment sample due to the Department's limitations in providing contract population data, as noted above. A statistical sample with extrapolated substantive results related to the funds review process was not possible due to these data limitations.

Population Definition and Sample Selection

Kearney identified domestic and overseas contracts as two distinct populations based on differences in the contract initiation and closeout control environments. In addition, overseas-initiated contracts are generally lower in value, given restrictions on contracting officials' authority³ to enter into contracts at post. Kearney separately sampled overseas contracts to address these differences.

Kearney obtained a population of contracts awarded in Afghanistan between FY 2004 and FY 2012 from USASpending.gov (see "Use of Computer Processed Data" below). Kearney then stratified the population by contracting office to identify contracts initiated by A/LM/AQM, Embassy Kabul, other domestic bureaus (for example, Bureau of International Narcotics and Law Enforcement Affairs), and the Regional Procurement Support Office (RPSO) in Frankfurt, Germany. Kearney opted not to perform testing over RPSO and non-A/LM/AQM domestic bureaus due to the low dollar value of their populations as compared to A/LM/AQM's population. Further, the majority of contracts awarded by RPSO and other non-A/LM/AQM domestic bureaus were fixed-price; therefore, Kearney considered these contracts relatively low risk in the context of this audit.

To prepare the domestic and overseas populations for judgment sampling, Kearney identified and removed duplicate task order records. Kearney then quantified the obligated dollar balance⁴ of each awarded task order, and removed all task orders with an obligated dollar balance of \$150,000 or less. Kearney performed this exclusion to remove contract actions issued

³ Authority is granted by Department agency heads, and grants a Contracting Office the right to enter into contractual relationships and commit the Government to the expenditure of taxpayer funds.

⁴ The obligated dollar balance is the total amount available to be spent for a specific contract or task order over the life of the contract or task order.

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using simplified acquisition procedures (SAP), which are exempt from certain administrative closeout requirements.⁵

After the aforementioned exclusions, the domestic population consisted of 174 task orders, totaling approximately \$8.7 billion. Kearney selected 57 of the 174 (33 percent) domestically-awarded task orders, totaling approximately \$8.4 billion. Specifically, Kearney completed a full-census review of all domestically generated task orders greater than \$6.5 million, which corresponds to the current simplified acquisition threshold for commercial items. After the aforementioned exclusions, the overseas population consisted of 265 task orders, totaling approximately \$59 million. Kearney selected a judgment sample of 30 of the 265 (11 percent) overseas generated task orders, totaling approximately \$8.9 million. When selecting task orders for review, Kearney considered, among other factors, the number of resources available and the level of effort required to analyze supporting documents to facilitate the completion of this audit within the designated timeframe.

Use of Computer-Processed Data

According to A/LM/AQM officials, the Department's contracting systems do not track contract physical completion, nor is the place of performance always accurate. As a result, the Department could not provide a population of domestic- and overseas-awarded contracts performed in Afghanistan that were physically completed between October 1, 2008, and September 30, 2012.

Kearney used computer-processed data contained in A/LM/AQM's Federal Procurement Data System – Next Generation (FPDS-NG) application to identify domestic and overseas contract awards. FPDS-NG tracks all unclassified Federal award data. In accordance with the Federal Funding Accountability and Transparency Act of 2006, Executive agencies are required to use FPDS-NG to maintain such award data and any modifications.

Nonetheless, Kearney could not readily identify a universe of physically completed domestic and overseas contracts performed in Afghanistan because no Department contracting application, including FPDS-NG, tracked such information. Therefore, to establish the universe of contracts subject to testing, Kearney requested that A/LM/AQM search FPDS-NG for all contracts supporting Afghanistan operations and programs that were awarded from FY 2004 through FY 2012. Although not all of the contracts within the requested listing would have been physically completed within the FY 2009 through FY 2012 time period—some may have finished early while others may have been extended—expanding the search parameters increased the likelihood that Kearney would identify all Afghanistan contracts with the potential of being physically completed within the audit scope. In addition, A/LM/AQM used key word searches (for example, “Afghan” or “Kabul”) in FPDS-NG to identify additional contracts that support the U.S. Mission in Afghanistan, but had incorrect or partial places of performance.

⁵ Federal Acquisition Regulation (FAR) Subpart 4.804-1(a)(1), “Files for contracts using simplified acquisition procedures should be considered closed when the contracting officer receives evidence of receipt of property and final payment, unless otherwise specified by agency regulations.”

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To assess the reliability of the FPDS-NG contract data A/LM/AQM provided, Kearney compared it to similar contract data maintained from www.USASpending.gov. Specifically, Kearney queried USASpending.gov to obtain a listing of Department of State contract actions that supported the U.S. Mission in Afghanistan during the FY 2004 through the FY 2012 timeframe. The specific parameters used to query USA.Spending.gov are further detailed below.

- Agency: Department of State
- Procurement Type: Contracts
- Timeframe: FY 2004 to FY 2012
- Place of Performance: Afghanistan

Kearney took several additional steps to confirm the A/LM/AQM provided universe of contract files was reasonably complete. Specifically, Kearney compared the contract information derived from FPDS-NG with USASpending.gov procurement information, and found no significant discrepancies between the two sources. FPDS-NG was a primary source for USASpending.gov procurement information, providing an additional source to support completeness. According to the Office of Management and Budget (OMB),⁶ contract data from FPDS-NG should be provided to populate USASpending.gov. In addition, consistent with OMB guidance,⁷ agencies should apply appropriate internal controls to effectively manage the accuracy, integrity, timeliness, and appropriate privacy of all data submitted to USASpending.gov. The audit team could not confirm the completeness and accuracy of the data acquired through USASpending.gov. However, based on how the data was used in the audit, Kearney concluded that the data was sufficient for its needs of assessing whether the population was reasonably complete.

Review of Internal Controls

Kearney performed steps to assess the adequacy of internal controls related to the areas audited. Specifically, Kearney gained an understanding of and tested the controls over contract closeout and funds review. Table 1 shows the key controls identified during the audit, their descriptions, and Kearney's conclusions over their design and operational effectiveness. Based on the results of test work, Kearney determined that two of seven controls were not designed effectively, and six of seven controls were not operating effectively. In addition, for lost or prematurely destroyed contract files, Kearney could not draw conclusions on the operational effectiveness of the controls.

⁶ Office of Management and Budget Memorandum M-09-19, "Guidance on Data Submission under the Federal Funding Accountability and Transparency Act (FFATA)."

⁷ Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control."

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Table 1. Key Controls Over the Contract Closeout and Funds Review Processes

Processes	Key Documents	Description	Designed Effectively	Operating Effectively
Contract Closeout	COR Completion Certificate	The contracting officer's representative (COR) documents all goods and/or services were received in accordance with contract specifications by completing a COR Completion Certificate.	Y	N
	COR Performance Evaluation	The COR documents the contractor's performance by assessing the quality and timeliness of the contractor's actions against requirements identified in the statement of work.	Y	N
	Contractor Release of Claims	The contracting officer (CO) obtains a signed release of claims from the contractor to protect the Government against future liabilities.	Y	N
	Final Payment and Closeout Memorandum	The COR reviews the final voucher/invoice for accuracy. The COR documents the review by approving payment of final invoice/voucher.	Y	N
	CO Contract Closeout Checklist	The CO completes a Contract Closeout Checklist certifying all required closeout items had been accomplished and were adequately supported by appropriate documentation. Key items covered in the checklist that were not mentioned previously include ensuring the proper disposition of classified material, the return of Government-owned property (for example, Government-furnished equipment), and the settlement of prior year indirect cost rates.	N	N
Funds Review	Standard Form (SF) 30	The Federal Acquisition Regulation 4.804-5 mandates that an initial funds review be performed by the contract administration office at the outset of the initiation of the contract closeout process. Kearney noted that the Department performed an Unliquidated Obligation (ULO) review on a periodic basis and deobligated excess funds via an SF-30. While the ULO review is a valuable control, it is largely intended as a tool to review significantly aged obligations and does not serve the same purpose as a funds review, which should be completed when the contract closeout process is initiated.	N	N
	SF-30 and CO Contract Closeout Checklist	The Department performs a final funds review at contract closeout once final payment and indirect cost rates are settled. Remaining funds are deobligated via an SF-30, and a remaining balance of zero is indicated on the Contract Closeout Checklist.	Y	Y

Source: Prepared by Kearney based on its understanding of the Department's control environment and its test of controls.

Recommendations from the Audit of the Contract Closeout Process for Contracts Supporting the U.S. Mission in Iraq

Kearney performed a similar audit over Iraq's contract closeout process,¹ and determined that contract closeout teams and contracting officers had not consistently met Federal and Department contract closeout requirements for the Iraq-related task orders included in the review. In that report, OIG and Kearney made nine recommendations, eight of which were applicable to the Audit of the Contract Closeout Process for Contracts Supporting the U.S. Mission in Afghanistan.² The specific recommendation, compliance actions, and status of each of those eight recommendations as of July 31, 2014 (that is, resolved,³ unresolved,⁴ or closed⁵) are shown in Table 1.

Table 1. Implementation Status of Recommendations from Audit of Iraq Contract Closeout Process

No.	Recommendation	Compliance Actions	Status
1	OIG recommends that the Bureau of Administration update the Foreign Affairs Handbook to include detailed, comprehensive, and all-inclusive guidance for performing an initial funds review and closing contracts, or provide reference to where additional procedural guidance can be found. The guidance should contain best practices as defined by entities such as the Office of Federal Procurement Policy.	Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM) and Bureau of Administration, Office of the Procurement Executive (A/OPE) concurred with the recommendation. A/OPE stated it would update the <i>Foreign Affairs Handbook</i> (FAH) to include detailed, comprehensive and all-inclusive guidance for performing an initial funds reviews and closing contracts. As of July 2014, A/OPE stated it had drafted updates for 26 volumes of the 14 FAH including a Contract Closure Handbook and anticipates publication by the end of October.	Resolved

¹ *Audit of the Contract Closeout Process for Contracts Supporting the U.S. Mission in Iraq*, AUD-MERO-14-06, December 2013.

² Recommendation 4 from AUD-MERO-14-06 was not included in the table because it did not apply to the U.S. Mission in Afghanistan.

³ A resolved recommendation is one in which the Department has agreed to implement the recommendation or one in which the Department has begun, but not yet completed, actions to fully implement the recommendation.

⁴ An unresolved recommendation is one in which the Department has neither taken actions nor has stated how it plans to implement the recommendation.

⁵ A closed recommendation is one in which the Department has completed actions necessary to implement the recommendation and OIG has determined that no additional action is required.

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No.	Recommendation	Compliance Actions	Status
2	OIG recommends that the Bureau of Administration, Office of the Procurement Executive, update the Department of State Acquisition Regulation to include detailed desktop procedures on how to perform an initial funds review.	A/OPE concurred with the recommendation. A/OPE stated it would update the <i>Foreign Affairs Handbook</i> instead of the Department of State Acquisition Regulation to include detailed desktop procedures on how to perform an initial funds review. As of July 2014, A/OPE stated it had drafted updates for 26 volumes of the 14 FAH including a Contract Closure Handbook and anticipates publication by the end of October.	Resolved
3	OIG recommends that the Bureau of Administration, Office of the Procurement Executive, update the Department of State Acquisition Regulation to require that the contracting officer identify the cognizant audit agency at contract award and begin coordinating with that audit agency to help prevent large backlogs of pending or unscheduled incurred cost audits.	A/OPE concurred with the recommendation. A/OPE stated it would update the <i>Foreign Affairs Handbook</i> instead of the Department of State Acquisition Regulation to include the requirement that the CO identify and begin coordination with the cognizant audit agency for any cost reimbursement contract. As of July 2014, A/OPE stated it had drafted updates for 26 volumes of the 14 FAH including a Contract Closure Handbook and anticipates publication by the end of October.	Resolved
5	OIG recommends that the Bureau of Administration, Office of the Procurement Executive, revise the Department of State Acquisition Regulation to reflect the interagency agreement between the Department of State and the Defense Contract Audit Agency for conducting incurred cost audits.	A/OPE concurred with the recommendation. In January 2014, A/OPE stated it had modified the <i>Foreign Affairs Handbook</i> to reflect the requirement to coordinate audits through the A/LM/AQM/QA Audit Team, which manages the interagency agreement between the Department and the Defense Contract Audit Agency for conducting incurred cost audits. Further, A/OPE stated it would update the Department of State Acquisition Regulation to include similar language detailed in the FAH. As of July 2014, A/OPE stated it had drafted updates for 26 volumes of the 14 FAH including a Contract Closure Handbook and anticipates publication by the end of October.	Resolved
6	OIG recommends that the Bureau of Administration, Office of the Procurement Executive, formally document and implement a process to periodically review contract closeout guidance and tools, such as the Overseas Contract Closeout Checklist, for accuracy and consistency with Federal and Department of State requirements.	A/OPE did not concur with the recommendation; however, stated it was currently in the process of revising contract closure guidance. As of July 2014, A/OPE stated it had drafted updates for 26 volumes of the 14 FAH including a Contract Closure Handbook and anticipates publication by the end of October.	Resolved

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No.	Recommendation	Compliance Actions	Status
7	OIG recommends that the Bureau of Administration, Office of the Procurement Executive, develop a detailed and consolidated guidebook that contains contract closeout procedures for use by contracting officers located domestically and overseas. The guidebook should have individual chapters addressing specific risks faced by contracting officials based on geographic location.	A/OPE concurred with the recommendation. In January 2014, A/OPE stated it would update the <i>Foreign Affairs Handbook</i> to include detailed, comprehensive and all-inclusive guidance for performing initial funds reviews and closing contracts. As of July 2014, A/OPE stated it had drafted updates for 26 volumes of the 14 FAH including a Contract Closure Handbook and anticipates publication by the end of October.	Resolved
8	OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop an automated application to track contract status upon award, to include estimated and actual physical completion dates and Federal Acquisition Regulation (FAR)-mandated timeframes for closeout based on actual physical completion. The application should include functionality to notify responsible officials of key contract dates, to include notifications to responsible officials when physically completed contracts are approaching the FAR's mandated deadline.	A/LM/AQM concurred with the recommendation. As of July 2014, A/LM/AQM developed a standing report query forecasting contracts expiring within 6 months of the date of the report.	Resolved
9	OIG recommends that the Bureau of Administration, Office of the Procurement Executive, in conjunction with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop and implement an e-Filing policy and document management system to provide effective contract file inventory control and documentation standards while allowing for ready accessibility through a central locator system. The policy should include minimum guidance over the completeness of data contained in the files and a schedule of milestones identifying mandatory implementation dates.	A/LM and A/OPE concurred with the recommendation. In January 2014, A/OPE stated that it was working with A/LM on a pilot program to create electronic files for overseas posts and domestic contracts. In May 2014, A/LM officials stated that the e-Filing system was currently being piloted at three overseas posts, with plans to incorporate additional posts starting in the summer of 2014. In July 2014, A/LM stated that domestic implementation is scheduled to begin in October 2014. Lastly, requirements analysis for a contracting officer's representative filing solution is underway, with a future vision state to be identified by December 31, 2014.	Resolved

Source: Kearney created based on the status of recommendations provided by the Office of Inspector General and meetings with Department officials.

Federal Acquisition Regulation Contract Closeout Requirements and Contracting Officer Responsibilities

According to Federal Acquisition Regulation (FAR) 4.804-5, “Procedures for Closing out Contract Files,” the contract administration office is responsible for initiating (automated or manual) administrative closeout of the contract after receiving evidence of its physical completion. At the outset of this process, the contract administration office must review the contract funds status and notify the contracting office of any excess funds the contract administration office might deobligate. When complete, the administrative closeout procedures must ensure the following:

- (1) Disposition of classified material is completed;
- (2) Final patent report is cleared;
- (3) Final royalty report is cleared;
- (4) There is no outstanding value engineering change proposal;
- (5) Plant clearance report is received;
- (6) Property clearance is received;
- (7) All interim or disallowed costs are settled;
- (8) Price revision is completed;
- (9) Subcontracts are settled by the prime contractor;
- (10) Prior year indirect cost rates are settled;
- (11) Termination docket is completed;¹
- (12) Contract audit is completed;
- (13) Contractor’s closing statement is completed;
- (14) Contractor’s final invoice has been submitted; and
- (15) Contract funds review is completed and excess funds deobligated.

FAR 4.804-5 also states that the contracting officer (CO) administering the contract must ensure that a contract completion statement is prepared. When the statement is completed, the CO must ensure that the signed original statement is placed in the contracting office contract file.

Further, Department of State Acquisition Regulation (DOSAR) 604-804-70, “Contract Closeout Procedures,” requires the CO to verify that all work under the contract has been completed and obtain the contracting officer’s representative’s assessment of the contractor’s performance. The DOSAR also explicitly identifies the CO as the responsible party for completing the Contract Closeout Checklist, which outlines the normal steps for closing out a physically completed contract.

¹ A termination docket is used when the contracting officer terminates the contract prior to the period of performance as defined by the base period and any exercised option periods. The contracting officer should document the termination date, cause for termination, and remaining actions required of each party to the contract.

Contract Closeout Checklist

The contracting officer (CO) is responsible for preparing contract closeout documentation as previously defined in Appendix C. The Contract Closeout Checklist, a key document included in the Overseas Contracting and Simplified Acquisition Guidebook, is a standardized tool designed to be utilized by the CO to ensure that all contract closeout documentation required by the Federal Acquisition Regulation has been completed. The Contract Closeout Checklist is shown in Figure 1.

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Figure 1. Contract Closeout Checklist

CONTRACT CLOSEOUT CHECKLIST			
DEPARTMENT OF STATE CONTRACT NO.:	CONTRACTING ACTIVITY		
LAST MODIFICATION NO.			
LAST CALL OR ORDER NO.			
CONTRACTOR NAME AND ADDRESS:	OTHER CLOSEOUT ACTIONS, IF REQUIRED	COMPLETED	N/A
TOTAL AMOUNT OF EXCESS FUNDS, IF ANY:	DISPOSITION OF CLASSIFIED MATERIAL		
\$			
FINAL PAYMENT HAS BEEN MADE (THIS MAY BE IN THE FORM OF A PRINT OUT FROM FMC)	PROPERTY CLEARANCE REPORT RECEIVED		
COPY OF PRINT-OUT DATED:	SUBCONTRACTS SETTLED BY PRIME CONTRACTOR		
FINAL INVOICE NUMBER:	PRIOR YEAR INDIRECT COST RATES SETTLED		
FINAL INVOICE DATE:	CONTRACTOR'S CLOSING STATEMENT COMPLETE		
CONTRACTOR RELEASE OF CLAIMS			
DATE:	CONTRACTOR'S FINAL INVOICE SUBMITTED		
COR DOCUMENTS	DEOBLIGATION OF EXCESS FUNDS		
CONTRACTOR ASSESSMENT (PRINT OUT FROM CPARS)	FOR CONSTRUCTION CONTRACTS		
NOTE: A copy of the performance assessment should remain in the contract files for future responsibility and past performance determinations	PUNCH LISTS CORRECTED		
DATE:	ALL AS-BUILT DRAWINGS, SHOP DRAWINGS, OPERATING MANUALS, PARTS LISTS, ETC. SUBMITTED		
COMPLETION CERTIFICATE	FINAL ACCEPTANCE LETTER ISSUED		
DATE:	ALL WARRANTIES AND GUARANTEES SUBMITTED		
FINAL PAYMENT AND CLOSEOUT OF CONTRACT STATEMENT	OTHER:		
DATE:			
ALL CONTRACTUAL ACTIONS REQUIRED UNDER THIS CONTRACT HAVE BEEN COMPLETED.			
CONTRACTING OFFICER	DATE		

Source: Overseas Contracting and Simplified Acquisition Guidebook, Exhibit 8-27, "Contract Closeout Checklist (Overseas)."

Bureau of Administration, Office of the Procurement Executive Response



United States Department of State

Washington, D.C. 20520

October 6, 2014

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MEMORANDUM

TO: OIG/AUD – Norman P. Brown
FROM: A/OPE – Corey Rindner *Corey Rindner*
SUBJECT: Draft Report on *Audit of the Contract Closeout Process for Contracts Supporting the U.S. Mission in Afghanistan*

Thank you for the opportunity to comment on the subject draft report.

The following is the A/OPE response to Recommendations 1 and 2. Eric Moore is the point of contact for these recommendations. He can be reached at 703-875-
[redacted] or via email [redacted] (b) (6) @state.gov.

Recommendation 1: OIG recommends that the Bureau of Administration, Office of the Procurement Executive, in consultation with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop and implement a requirement for contracting officers to maintain a 'Contract Chronology' for each contract file. The 'Contract Chronology' should include assignment of and changes in key contract personnel and key milestones through the life of the contract.

A Bureau Response: A/OPE concurs with Recommendation 1 and is drafting a Procurement Information Bulletin (PIB) update.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of the Procurement Executive, in consultation with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, require that departing contracting officers certify the completeness and accuracy of their contract files prior to their departure.

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A Bureau Response: A/OPE concurs with Recommendation 2 and is drafting a Procurement Information Bulletin (PIB) update.

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Appendix F

**Bureau of Administration, Office of Logistics Management, Office of
Acquisitions Management Response**




United States Department of State

Washington, D.C. 20520


October 3, 2014

UNCLASSIFIED
MEMORANDUM

TO: OIG/AUD – Norman P. Brown

FROM: A/LM – Catherine I. Ebert-Gray 

SUBJECT: Draft Report - Audit of the Contract Closeout Process for
Contracts Supporting the U.S. Mission in Afghanistan

Thank you for the opportunity to provide our comments on the draft report titled Audit of the Contract Closeout Process for Contracts Supporting the U.S. Mission in Afghanistan. Ms. Sharon James will be the point of contact and she may be reached at 703-875-

Recommendation 3. OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, review task orders SAQMPD06FA079 and SAQMMA10F1570 and determine how much of the \$52 million in unliquidated obligations can be de-obligated.

A/LM/AQM Response (10/03/2014): AQM concurs with this recommendation. The Contracting Officer sent out written notification to the vendor on May 27, 2014, to reconcile invoicing and deobligate unnecessary funds. To date, we have deobligated \$308K under SAQMPD06FA079 and the CO will continue to work with the vendor to evaluate the remaining amounts of unliquidated obligations and deobligate any unnecessary funds. AQM further advises that final closeout of these task orders is pending resolution of an ongoing DCAA audit for WPPS II.

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